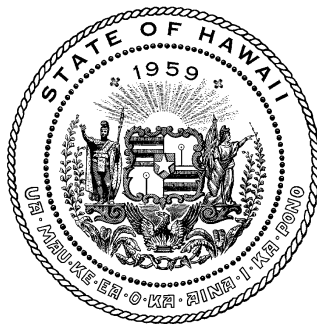


STATE OF HAWAII
DEPARTMENT OF TAXATION



GENERAL INSTRUCTIONS FOR FILING THE
GENERAL EXCISE/USE TAX RETURNS

<u>CONTAINS THE FOLLOWING:</u>	<u>Page Nos.</u>
General Excise/Use Tax Returns General Instructions	2-3
General Excise/Use Tax Activity Classifications	4-5
Step-By-Step Instructions for Filling in Your Form G-45 (Periodic Return)	6-7
Step-By-Step Instructions for Filling in Your Form G-49 (Annual Return and Reconciliation)	8-9
Schedule of General Excise Tax Exemptions and Deductions	10-12
Division of Gross Income Among Taxpayers	12
Schedule of Use Tax Exemptions and Deductions	12

Taxpayer’s Mailing Address Information

OAHU DISTRICT OFFICE P.O. BOX 1425 HONOLULU, HI 96806-1425	MAUI DISTRICT OFFICE P.O. BOX 1427 WAILUKU, HI 96793-6427	HAWAII DISTRICT OFFICE P.O. BOX 937 HILO, HI 96721-0937	KAUAI DISTRICT OFFICE P.O. BOX 1687 LIHUE, HI 96766-5687
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GENERAL EXCISE/USE TAX RETURNS

GENERAL INSTRUCTIONS

Who Must File

Every person doing business in Hawaii during the taxable year must get a general excise license and file the appropriate returns, regardless of how much income the business earns, and whether or not the business also incurred losses. Every person receiving rents from real property owned in Hawaii is considered to be doing business, and must file returns.

Every person who uses in this State tangible personal property which is imported, or purchased from a seller that does not have a general excise license, must file a return to report use tax **in addition to** general excise tax.

Under the general excise and use tax laws, "person" means every separate legal entity, even though it might not pay net income tax or file a net income tax return. For example, although a partnership that is doing business does not pay net income tax on the income it earns, the partnership (rather than its partners) is required to pay general excise or use tax. However, if the grantor of a revocable living trust reports all items of the trust's income on the grantor's individual net income tax return, the grantor rather than the trust will report and pay general excise tax on the trust's income. See Tax Information Release No. 94-5 for more information. Furthermore, a husband and wife may file joint general excise and use tax returns.

In most circumstances, general excise tax returns do not have to be filed by:

- Individuals not engaged in business. If an individual's only business is performing personal services as an employee under the direction and control of an employer, returns are not required, but an individual who rents out real property or performs services as an independent contractor, even as a side business, must report and pay tax on that income.
- Financial institutions. A financial institution that is subject to the Franchise Tax Law (Chapter 241, Hawaii Revised Statutes (HRS)), and that earns only income that is taxable under that law, only needs to file a franchise tax return. See Section 237-24.8, HRS, for more information.
- Public utilities owned and operated by the State or a political subdivision of it, or public service companies subject to the Public Service Company Tax Law (Chapter 239, HRS). If, however, a public service company receives income from directory advertising, interest income, or income not included in the measure of the tax imposed by Chapter 239, HRS, general excise tax returns must be filed to report and pay tax on those amounts.
- Insurance companies subject to the insurance premiums tax (Sections 431:7-201 to 431:7-205, HRS). If, however, an insurance company receives rents from investments in Hawaii real property, general excise tax returns must be filed to report and pay tax on that income. See Section 237-29.7, HRS, for more information.
- Nonprofit organizations that have filed Form G-6, Application for Exemption from the

Payment of the General Excise Tax, and which have been granted tax exempt status by the Department. **A nonprofit organization must file Form G-6 even if it has a determination letter from the Internal Revenue Service.** If a nonprofit organization conducts fund raising activity such as selling huli-huli chicken or sweet bread, or conducts any other business that is unrelated to the exempt activity, general excise tax returns must be filed to report and pay tax on that income. See Tax Information Release No. 91-4 for more information.

Resident or Nonresident?

Under the general excise and use tax laws, it does not matter if you are a resident, nonresident, or part-year resident.

Filing Period

The periodic returns (Form G-45) are used to report gross income, exemptions, deductions, and tax due on business activities periodically. They must be filed throughout the year at specified intervals. How often you file depends on the amount of general excise tax your business has to pay during the year.

- You must file monthly if you will pay more than \$2,000 in general excise tax per year.
- You may file quarterly if you will pay \$2,000 or less in general excise tax per year.
- You may file semiannually if you will pay \$1,000 or less in general excise tax per year.

If you are filing quarterly or semiannually and your tax liability is more than the amounts listed above, you must change your filing period. We may also ask you to file more often.

To change your filing period, notify your district office by filing Form GEW-TA-RV-5, General Excise/Use, Employer's Withholding, Transient Accommodations and Rental Motor Vehicle & Tour Vehicle Surcharge Application Changes.

What Forms to File

A monthly filer must file a periodic return (Form G-45) every month. Every third month is used by a quarterly filer and every sixth month is used by a semiannual filer.

All filers must file an annual return and reconciliation form (Form G-49) after the close of the taxable year. The annual return is a summary of your activity for the entire year. This return must be filed **in addition to** the periodic tax returns.

You need to file a periodic return even if you do not have any gross income to report for the period. Just write a zero (0) in each column of your main business activity and also on the "Total Taxes Due" line. If your business activity has temporarily stopped but you think you are going to resume your activity within two years, you can write us to request that your license be put on inactive status. If we approve your request, you do not have to file periodic returns for the period your license is inactive.

If your business activity has stopped and you do not think that you will need your license again, such as if you have incorporated a sole proprie-

torship or your business has been sold, you need to cancel your general excise license. Fill in the "Notification of Cancellation" (Form GEW-TA-RV-1) and send it in with your license to your district tax office. A notification of cancellation closes your tax year, so you then need to file your annual reconciliation return (Form G-49).

Electronic Funds Transfer (EFT)

Section 231-9.9, HRS, authorizes the Department of Taxation to require those taxpayers whose tax liability for a particular tax exceeded \$100,000 during the past year to pay that tax by EFT instead of by check. The Department reviews the filing records of taxpayers and will mail notices to taxpayers who met this criterion. Any taxpayer who does not meet the criterion may still voluntarily pay by EFT. For more information on paying taxes by EFT, contact your district tax office for a copy of Tax Information Release No. 95-6.

Due Dates

- Periodic returns are due one month following the close of the filing period; that is, you have one month to file them.
- The annual return is due on or before the 20th day of the 4th month following the close of the tax year. For taxpayers on a calendar year, this return will be due on April 20th.

If you file late, you may have to pay penalties and interest. Please see the instructions for **Penalties and Interest**, immediately following.

No extensions are allowed for filing periodic returns. If you are not able to determine the exact amount of your gross income for the period, estimate it as accurately as you can and file on that basis.

If you are unable to meet the deadline for filing the annual return, you should ask for an extension on Form G-39. **Approval of an extension request is not automatic.** Also, an extension is an extension of time to file, not an extension of time for payment of tax. Thus, even if you request an extension, you must still pay any additional tax you think will be due after estimating your gross income as accurately as possible. That payment must be sent in with your extension request.

Penalties and Interest

If you have a balance due and the returns are not filed on time, a penalty will be assessed. A penalty of 5% per month, or fraction thereof, up to a maximum of 25% of the tax due, will be assessed for failure to file a return on time. A penalty of 20% of the tax due will be assessed for failure to pay all of the tax due as shown on a timely filed return within 60 days of the prescribed filing date.

Interest will be assessed for taxes not paid on or before the last date prescribed for payment, at the rate of 2/3 of 1% per month or fraction thereof. Interest will also be assessed on any unpaid penalty.

Please check your return carefully. Additional penalties may be assessed if you make an un-

derpayment of tax due to negligence, intentional disregard of the Department's rules, or fraud.

Amended Returns

If you have filed your General Excise/Use Tax Return and later become aware of any changes you must make to income or exemptions/deductions, file the following forms, as applicable, to change the appropriate form you have already filed.

- The Amended Periodic General Excise/Use Tax Return, **Form G-54**, is used to correct a previously filed General Excise/Use Tax Return, Form G-45. Do **NOT** use this form if the General Excise/Use Tax Annual Return and Reconciliation, Form G-49, has already been filed for the tax year.
- The Amended General Excise/Use Tax Annual Return and Reconciliation, **Form G-55**, is used to correct a previously filed General Excise/Use Tax Annual Return and Reconciliation, Form G-49. It is **NOT** necessary to amend both the periodic and annual returns previously filed.

Should you need either the Form G-54 or G-55, contact your district office.

Where to File and Get Forms, Instructions, and Publications

File your general excise and use tax returns with the district office for the taxation district in which you do business, or the district in which you first used property that is subject to the use tax. If you do business in more than one taxation district, file with the Oahu district office. The mailing addresses for the offices are printed on the front cover of this booklet.

Forms, publications, and other documents, such as copies of Tax Information Releases and Administrative Rules issued by the Department, are available from the district offices.

The district office locations are:

OAHU DISTRICT OFFICE
830 Punchbowl Street
Honolulu, Hawai'i 96813-5045

Telephone:
For tax information:
(808) 587-6515 (Jan. 1 - April 20)
(808) 587-4242
Toll free: 1-800-222-3229

To request tax forms:
(808) 587-7572
Toll free: 1-800-222-7572

MAUI DISTRICT OFFICE
State Office Building
54 High Street
Wailuku, Hawai'i 96793-2126
Telephone: (808) 984-8500

HAWAII DISTRICT OFFICE
State Office Building
75 Aupuni Street
Hilo, Hawai'i 96720-4253
Telephone: (808) 974-6321

KAUAI DISTRICT OFFICE
State Office Building
3060 Eiwa Street
Lihue, Hawai'i 96766-1310
Telephone: (808) 274-3456

GENERAL INFORMATION ON THE GENERAL EXCISE TAX LAW

The general excise tax is a tax imposed on the gross income you receive from any business activity you have in Hawaii. Gross income includes any cost passed on to the customer and represented to be the general excise tax.

For example:

Retail sale price	\$ 100.00
+ 4% tax (passed on)	+ 4.00
Charged to customer	<u>\$ 104.00</u>

In this example, if there are no exemptions or deductions, the general excise tax due on the

gross income is \$4.16, calculated as follows:

Gross income	\$ 104.00
x Tax rate	x .04
General excise tax	<u>\$ 4.16</u>

Examples of Income You Must Report

- The gross amount of income you receive from the sale of goods or services. This includes the amount you receive for the sale of inventory property, even if you receive it

because you sold your entire business.

- Bartering income, which is the fair market value of goods or services you received in return for your goods or services.
- Income that you received as a reimbursement for any costs spent on behalf of any customer or client, if you marked up the costs by any amount or if the costs were actually spent on your own business.

Other specific examples are found in each of the classifications below.

GENERAL INFORMATION ON THE USE TAX LAW

The use tax is a tax imposed on the landed value of tangible personal property that is either imported or purchased from a seller that is not licensed under the General Excise Tax Law, and is used in the State. The landed value is the value an item has at the time it arrives in Hawaii. It generally includes the invoice price plus shipping, insurance, handling, licenses, customs duty, and other related costs. It does not include sales tax paid in another state.

Property is not subject to use tax if either general excise tax or use tax has been previously paid on the property.

Examples of Property You Must Report

- Cars, trucks, boats, or office machines that are imported for business or personal use, for retail sale, or for leasing.
- Articles such as clothing, electronics, or cameras that are imported from another state or a foreign country by a retailer for resale here.
- Heavy equipment, such as cranes, tractors, and earth movers that will be kept in the State for more than 365 days.
- Lumber imported by a contractor for use in a construction project.

Examples of Property That You Do Not Report

- Temporary use property that will be kept in the State for less than a year, such as construction equipment that will be removed upon completion of a construction contract. If any property is in Hawaii for a year or less, then it is considered temporarily in Hawaii. Perishable property, or quickly consumable property, does not qualify as temporary use property even if it is not consumed within the State before it spoils.
- Property received solely as a gift. Property purchased at a bargain, even from a friend or relative, does not qualify for this exclusion.
- Articles that are examined and then returned, such as goods that are returned after a trial period.
- Goods that are imported by the owner of vessels engaged in interstate commerce and that are used as ship stores for the vessels.
- Household goods, personal effects, and private automobiles if the person importing them into the State (A) acquired them outside Hawaii, (B) acquired them while the person was not a Hawaii resident, (C) ac-

quired them for use outside Hawaii, and (D) made actual and substantial use of them outside Hawaii. An article that was acquired less than three months before importation to Hawaii is presumed to have been purchased for use within Hawaii, and, therefore, is presumed not to qualify for this exclusion.

- Aircraft that is kept solely for renting to lessees using the aircraft for commercial transportation of passengers or goods.
- Oceangoing vessels that are used by a public service company to provide transportation from one point in the State to another.
- Newspapers, magazines, and other periodical publications purchased on a subscription plan that qualify for the second class mail rate.
- Property other than tangible personal property. This includes currency, stocks, bonds, patents, licenses, and other intangible property.
- Property that has been previously subject to the Hawaii use tax.
- Property purchased from a seller who was subject to the general excise tax upon a sale or transfer of the property to the user.

GENERAL EXCISE TAX AND USE TAX ACTIVITY CLASSIFICATIONS

LINES 1-16 — GENERAL EXCISE TAX

Line 1

Wholesaling

Wholesaling means any of the following activities:

- (1) Selling tangible personal property to a licensed wholesaler, retailer, or other person who resells the property and does not use or consume it. For sales of tangible personal property to a service provider, see paragraph (8).
- (2) Selling material or commodities to a licensed manufacturer, if the manufacturer incorporates that property into a finished or saleable product, the incorporated property remains perceptible to the senses in the product, and the manufacturer sells the product.
- (3) Selling material or commodities to a licensed producer or a cooperative association, if the producer or co-op incorporates that property into a finished or saleable product, and the producer or co-op sells the product. This classification includes selling material or commodities that are essential to the planting, growth, nurturing, and production of agricultural, aquacultural, or natural resource products.
- (4) Selling material or commodities to a licensed contractor, if the contractor incorporates that property into a finished work or project required by the contract, and the incorporated property remains perceptible to the senses in the finished work or project.
- (5) Selling poultry feed, animal feed, hatching eggs, semen, replacement stock, or breeding services to a licensed producer or a cooperative association, if the producer or co-op sells the finished or saleable products raised or nurtured. This classification does not apply to feed for poultry or animals to be used for hauling, transportation, or sports purposes.
- (6) Selling seed for producing agricultural products, or bait for catching fish (including catching bait for catching fish), to a licensed producer or a cooperative association, if the producer or co-op sells the finished or saleable products raised or caught, or incorporates them into a manufactured product.
- (7) Selling polypropylene shade cloth, polyfilm, or polyethylene film; cartons and other containers to package eggs, fruits, vegetables, and other agricultural products; seedlings and cuttings to produce nursery plants; or chick containers to a licensed producer or a cooperative association, if the producer or co-op sells the finished or saleable products raised or nurtured.
- (8) Selling tangible personal property to a licensed service provider, where: (A) the property is not consumed in the performance of services, (B) the property is not incidental to the performance of services, (C) the property is resold at the retail rate of four per cent, and (D) the property is separately charged or billed by the service provider. For example, if an auto body

shop paints the cars it works on, the paint is considered to be consumed in performing the body shop's services.

- (9) Selling capital goods to a licensed leasing company which then leases them to others as a service. Capital goods are those goods which have a depreciable life under the income tax law.

For specific legal requirements applicable to each of these classifications, see Section 237-4, HRS, and the Administrative Rules under that Section. A wholesaler may wish to document its status with respect to specific transactions by getting resale certificates from its clients. For specific requirements applicable to resale certificates, see Section 18-237-13-02(d), Hawaii Administrative Rules.

Line 2 Manufacturing

Manufacturing includes compounding, canning, preserving, packing, printing, publishing, milling, processing, refining, or otherwise preparing an article for sale, profit, or commercial use.

Sugar processing should be reported on line 4, and pineapple canning should be reported on line 5.

If you are a manufacturer selling at retail, report the retail sales on line 8. Report the rest of your sales on this line.

If you are a service provider that mills or processes products under a contract with a manufacturer, report your gross income from that activity on this line, line 4, or line 5, depending on what your client manufactures. For more information, see Section 237-18(c), HRS.

Line 3 Producing

Producing means the business of raising and producing agricultural products in their natural state, or producing natural resource products, or fishing or aquaculture, for sale or for shipment out of the State. Agricultural products include floricultural, horticultural, viticultural, forestry, nut, coffee, dairy, livestock, poultry, bee, animal, and any other farm, agronomic, or plantation products.

If you are a producer selling at retail, report the retail sales on line 8. Report the rest of your sales on this line.

Lines 4 and 5 Sugar Processing and Pineapple Canning

Sugar processing and pineapple canning should be reported on these lines rather than line 2.

Service providers that mill sugar cane, or mill sugar cane along with harvesting cane, hauling cane, or maintaining roads under a contract with a cane planter, should report gross receipts from these services on line 4. For more information, see Section 237-18(c) and (d), HRS.

Line 6 Services Rendered for (or to) an Intermediary

If a business engages to perform a service for a consumer, and contracts with another business to perform part of the service for that consumer (sometimes known as "farming out"), the sec-

ond business reports its gross income on this line while the first business (known as an "intermediary") reports its income on line 9. If, however, the second business is really performing a service for the intermediary rather than the intermediary's client, the second business does not qualify for this rate and must report its gross income on line 9.

Line 7 Insurance Commissions

Persons licensed under Chapter 431, HRS, as a solicitor, general agent, or subagent report their insurance commissions on this line.

Line 8 Retailing

Persons who sell tangible personal property and who do not qualify for wholesale treatment on lines 1 to 5 report their gross sales here. Sales also must be reported here, rather than on lines 1 to 5, if the tangible personal property is sold to a retailer who is the ultimate user, and does not resell the item or include it as a part of the retailer's inventory.

Line 9 Services and Professions

Service providers, including those providing professional services, report their gross income on this line. A director, executor, trustee, or fiduciary is considered to be engaging in a profession if the person serves in four or more such capacities, or receives more than \$1,200, in a taxable year.

Technicians who supply dentists or physicians with dentures, orthodontic devices, braces, and similar items for the dentists' or physicians' patients report their gross sales from this activity on line 2, Manufacturing, rather than on this line. (Section 237-15, HRS.)

Businesses that generate electric power and sell it to a public utility report their gross sales from this activity on line 3, Producing, rather than on this line.

Line 10 Contracting

Contractors report on this line. A contractor means:

- (1) A person engaging in the business of contracting to erect, construct, repair, or improve buildings or structures, of any kind or description, or to make, construct, repair, or improve any highway, road, street, sidewalk, ditch, excavation, fill, bridge, shaft, well, culvert, sewer, water system, drainage system, dredging or harbor improvement project, electric or steam rail, lighting or power system, transmission line, tower, dock, wharf, or other improvements;
- (2) An architect, professional engineer, land surveyor, or landscape architect; or
- (3) A pest control operator or fumigator.

Line 11 Theater Amusement and Broadcasting

Income from operating a theater, opera house, vaudeville, amusement park, dance hall, skating rink, broadcasting station, or any other place where amusements are offered to the public, is reported on this line.

Line 12 Interest

Interest is reported on this line if it is earned by a person engaged in the business of lending money, such as a department store that charges interest on revolving charge accounts, or if the interest is earned from the investment of business capital. Unless the recipient can clearly show otherwise, all interest that is earned by for-profit corporations or partnerships (including unincorporated business associations such as a hui), and all interest that is earned in a business account of a sole proprietorship, estate, or trust, must be reported on this line. For more information, see Tax Information Releases No. 42-74 and 94-1.

Line 13 Commissions

A commission is the compensation of an agent, factor, broker, or bailee, usually calculated as a percentage on the amount of the transactions or on the profit to the principal. Note that if an agent receives commissions and then shares it with subagents, the amounts paid to the subagents generally are NOT deductible by the agent.

Line 14 Transient Accommodations Rentals

This line is used to report gross rentals that are also taxed under the Transient Accommodations Tax Law, Chapter 237D, HRS. Operators of transient accommodations should make sure that this line agrees with the amount reported on the transient accommodations tax return. Charges to transients that are not rentals, such as cancellation fees, charges for food and beverage, and service charges should be reported on other lines.

Line 15 Other Rentals

This line is used to report gross rentals that are not also taxed under the Transient Accommodations Tax Law, Chapter 237D, HRS, such as rentals from long-term tenants, and all other types of lease or rental agreements.

Line 16 Other

Gross income from business activities not mentioned in the list above is reported here. Examples are: sales of advertising space in a publication, royalties, payments received in exchange for a covenant not to compete, or insurance proceeds to replace gross income that would have been subject to the tax if earned.

LINES 17-18 — USE TAX

Line 17 Imports for Resale at Retail

A licensed wholesaler (see the instructions for line 1) that imports or purchases property for wholesale sale is exempt from use tax on that property. The value of that property should be included in columns a and b.

A person that imports or purchases property for retail sale reports on this line. The value of this property is included in column a but not column b.

If a licensed manufacturer (see the instructions for line 2) imports or purchases materials or commodities for incorporation into a manufac-

tured product, the materials or commodities remain perceptible to the senses in the finished or saleable product, and the finished product is sold at wholesale, the value of those materials or commodities should be included in columns a and b.

If the finished product is sold at retail, the manufacturer reports on this line. The value of the incorporated materials and commodities is included in column a but not column b.

If the materials and commodities do not remain perceptible to the senses in the finished product, their value must be reported on line 18.

A licensed contractor (see the instructions for line 10) that imports or purchases property for incorporation into a finished work or project required by the contract, reports on this line. If the incorporated property remains perceptible to the senses in the finished work or project, the value of this property is included in column a but not column b.

Because you may not know whether the property imported will be sold at wholesale or retail at the time it is imported, you can do one of two things. First, you may report the value of all imports and pay use tax at 0.5%, and when you later know how much is sold at wholesale you may file an amended return and claim a refund of the appropriate amount of use tax you paid.

Second, you may choose one of four methods to compute the landed value of property imported for sale at wholesale. These methods are the direct cost method, the percentage of wholesale sales to total sales method, the gross profit percentage method, and any other method that correctly reflects your tax liability if it is first approved by the Department. See Section 18-238-2, Hawaii Administrative Rules, or the Department's publication entitled "An Introduction to the Use Tax," for more information and examples of these methods. One method must be used consistently between accounting periods unless the Department permits a change of method.

Line 18 Imports for Consumption

All property that is imported by any person without a general excise tax license is reported here, unless an exemption applies.

All other property that does not qualify for exemption or reporting on line 17 is reported here. An example would be when a licensed manufacturer or retailer imports abrasive materials or polishing compounds for use in the manufacturing or finishing process. These materials are not perceptible to the senses in the finished product and are consumed in the manufacturing or finishing process.

Lines 17 and 18 Column b Sales Tax Credit

Although not an exemption or deduction, the use tax law does provide for a credit against your use tax liability for sales or use taxes paid to another state on that item. This credit is property-specific; that is, the sales or use tax paid on a specific item imported may only be used to offset the use tax due on that same item. Any excess sales tax or use tax paid cannot be used to offset the use tax due on a different item.

The maximum amount of credit which you can claim is the lesser of:

- 1) the amount of sales or use tax paid on the specific item imported; or
- 2) the amount of Hawaii use tax that would otherwise be payable on the specific item imported;

CAUTION: *Taxes paid for manufacturing, extraction, and the like, as well as license fees or transfer taxes, ARE NOT sales or use taxes and MAY NOT be taken as a credit against Hawaii use tax due.*

The following special steps should be taken to claim the credit when reporting the use tax on the periodic and annual general excise/use tax returns.

- 1) Determine the exact amount of use tax due on the property imported.
- 2) Compare the use tax due with the sales or use tax paid to another state on that item. Divide the lesser of the two amounts by .005 if the landed value of the item is reported on line 17, or by .04 if the landed value of the item was reported on line 18.
- 3) Enter the amount computed in step 2 above in column b of line 17 or 18, as applicable. Subtract this amount from column a of the same line and enter the result in column c. Multiply column c by the rate in the column to right of column c and enter the result in column d. This is the use tax which exceeds the sales tax paid.

You should be prepared to produce documents showing that sales or use tax was paid, and showing the property on which it was paid. If you cannot produce these documents, your claim for this credit may be disallowed.

For example:

Mary Smith purchased a specialized machine for use in her business for \$500 from an out-of-state vendor not doing business in Hawaii. In addition, she had to pay \$15 (3%) in state sales tax and \$50 in shipping, handling and insurance charges. She will report the import on line 18 of her periodic general excise/use tax return (Form G-45).

- 1)

Sales Price (Does not include sales tax paid)	\$500.00
Shipping Handling and Insurance	50.00
Total Landed Value	\$550.00
Use Tax Rate	4%
USE TAX DUE	<u>\$22.00</u>
- 2) The sales tax paid (\$15) is less than the use tax due (\$22).
 $\$15 \div .04 = \375.00
- 3) Mary would complete her periodic general excise tax return with the \$550 (total landed value) on line 18, column a. On line 18, column b, she would enter the \$375. On line 18, column c, Mary would enter the difference between column a and column b, \$175, which would be taxed at .04 and \$7 entered in column d.

The \$7 use tax due is the difference between the use tax due (\$22) and the credit for state sales or use tax paid to another state (\$15).

STEP-BY-STEP INSTRUCTIONS FOR FILLING IN YOUR FORM G-45 (PERIODIC RETURN)

(The circled numbers in the sample below correspond to the steps in the instructions.)

FORM G-45
(Rev. 1993)

STATE OF HAWAII — DEPARTMENT OF TAXATION GENERAL EXCISE/USE TAX RETURN

DO NOT WRITE IN THIS AREA

10

NAME: Doe, John

1

G.E./USE ID. NO. 1 0 0 0 0 0 0 0

SEMIANNUAL PERIOD OF JAN — JUN 1994

(Do not combine your income for more than one filing period, depending on your filing status.)

SCHEDULE A — ACTIVITIES UNDER CHAPTER 237, HRS — GENERAL EXCISE TAX LAW									
BUSINESS ACTIVITIES	BUS. ACT. CODE	VALUES, GROSS PROCEEDS OR GROSS INCOME	EXEMPTIONS, DEDUCTIONS, EXPLANATION REVERSE SIDE	TAXABLE INCOME (columns a minus column b)	RATE	TAXES			
		a	b	c		d	e	f	
WHOLESALE	1	1,000 00	0 00	1,000 00	.05	5 00			1
MANUFACTURING	2				.05				2
PRODUCING	3				.05				3
SUGAR PROCESSING	4				.05				4
PINEAPPLE CANNING	5				.05				5
VEGETABLE PRESERVING	6				.05				6
INSURANCE COMMISSIONS	7				.0015				7
RETAILING	8	9,000 00	25 00	8,975 00	.04	359 00			8
SERVICES INCL. PROFESSIONAL	9				.04				9
CONTRACTING	10				.04				10
THEATER, AMUSEMENT AND RECREATION	11				.04				11
INTEREST	12				.04				12
COMMISSIONS	13				.04				13
TRANSPORTATION/RENTALS	14				.04				14
OTHER RENTALS	15				.04				15
ALL OTHERS	16				.04				16
SCHEDULE B — ACTIVITIES UNDER CHAPTER 238, HRS — USE TAX LAW									
IMPORTS FOR RESALE AT RETAIL	17	9,000 00	0 00	9,000 00	.05	450 00			17
IMPORTS FOR CONSUMPTION	18				.04				18
IF YOU DO NOT HAVE ANY GROSS INCOME, AND THE RESULT IS NO TAX DUE, ENTER "X" IN EACH COLUMN OF YOUR BUSINESS ACTIVITY(IES) AND LINES 18 AND 22.				19. TOTAL TAXES DUE		409 00			19
FOR LATE FILING ONLY →				20a. PENALTY					20a
				20b. INTEREST					20b
Make check payable to "HAWAII STATE TAX COLLECTOR" in U.S. dollars drawn on any U.S. bank. Write your general excise/use I.D. number on the check.				21. TOTAL PAYMENT PAY IN U.S. DOLLARS		409 00			21
GRAND TOTAL EXEMPTIONS/DEDUCTIONS FROM BACK OF FORM.				22		25 00			22

I declare, under the penalties set forth in sections 237-46 and 238-12, HRS, that this is a true and correct return, prepared in accordance with the provisions of the General Excise and Use Tax Laws and the rules issued thereunder.

IN THE CASE OF A CORPORATION OR PARTNERSHIP, THIS RETURN MUST BE SIGNED BY AN OFFICER, PARTNER, OR DULY AUTHORIZED AGENT.

John Doe

19

OWNER

7/31/94

THIS SPACE FOR DATE RECEIVED STAMP

TITLE

DATE

See Front Cover For Mailing Address

FORM G-45 10

The Top of the Tax Return

Step 1 — Write your name here. Individuals, write your last name first.

Step 2 — Enter your G.E./Use I.D. No. in the area provided.

Step 3 — Place an "X" in the appropriate box to indicate your filing period and complete the filing period information.

Lines 1-16 — Schedule A (General Excise Tax)

Step 4 — Enter the gross income from your business activity or activities in column a on the appropriate business activity line or lines. Explanations of each of the

business activity lines are found in the general instructions at the beginning of this book. If you did not derive any income from your business activity during this period, enter zero (0) on the applicable line or lines.

If a promoter, a contractor, or other person withheld general excise or use tax and paid it to the Department of Taxation on your behalf, do not enter the amount paid or the income on which tax was withheld. However, these amounts will need to be included in your annual reconciliation return.

Step 5 — If you have allowable exemptions or deductions, enter the total in column b on the appropriate business activity line or lines. If you do not have any exemptions or deductions, enter zero (0) on the applicable line or lines.

IMPORTANT: *Most deductions allowed on net income tax returns (for example operating expenses or cost of goods sold) are NOT deductible on general excise tax returns. Explanations of allowable exemptions and deductions are found at the end of this book.*

Step 6 — For each activity you engage in, subtract column b from column a and enter the result in column c, taxable income. If the result is zero, enter a zero (0).

Step 7 — For each activity you engage in, multiply the taxable income in column c by the appropriate tax rate. Enter the result in column d. The result will be the general excise tax due for that activity. If the result is zero, enter a zero (0).

Step 8 — If you are claiming exemptions or deductions in column b, turn to the reverse side of the return. Write the line number of the activity for which the exemption or deduction is being claimed and the description of the exemption or deduction. If you write the HRS section number of your claimed exemptions or deductions (from the back pages of this book), it will speed processing of your return and minimize the chances of us misunderstanding what you claimed.

Step 9 — Add the dollar amounts of the exemptions and deductions for Schedule A, activities taxable under the general excise tax law, and enter the sum on the subtotal line.

Lines 17-18 — Schedule B (Use Tax)

Step 10 — Enter the landed value (see "General Information on the Use Tax Law" in the general instructions at the beginning of this book) of tangible personal property imported into Hawaii in column a on the appropriate line or lines. Explanations of each of these lines are found in the general instructions at the beginning of this book.

Step 11 — If you have allowable exemptions or deductions, enter the total in column b on the appropriate line or lines. Explanations of allowable exemptions and deductions are found at the end of this book. If you do not have any exemptions or deductions, enter zero (0) on the applicable line or lines.

Step 12 — Subtract column b from column a and enter the result in column c. This is the taxable value.

Step 13 — Multiply the taxable value in column c by the tax rate. Enter the result in column d. The result will be the use tax due.

Step 14 — If you are claiming exemptions or deductions in column b of lines 17-18, turn to the reverse side of the return. Write the line number of the activity for which the exemption or deduction is being claimed and the description of the exemption or deduction. If you write the HRS section number of your claimed exemptions or deductions (from the back pages of this book), it will speed processing of your return.

If you have paid sales or use tax in another state on property that is subject to the Hawaii use tax, see "Lines 17 and 18, Column b", in the "General Excise and Use Tax Activity Classifications" in the general instructions at the beginning of this book.

Step 15 — Add the dollar amounts of the exemptions and deductions for Schedule B, and enter the sum on the subtotal line.

Step 16 — Add the subtotals of Schedule A and B on the reverse side of the return and enter the total on the grand total line and line 22 on the front of the return.

Finishing the Tax Return

Step 17 — On the front page of the return, add all of the amounts in lines 1 through 18, column d. Enter the sum on line 19. This is the total tax due.

CAUTION: LINE 19 MUST BE FILLED IN. *If you do not owe either general excise tax or use tax, enter a zero (0) here.*

Step 18 — If you file a tax return after the due date, and if there is tax due on the return, then you must compute penalty and interest charges. After computing the amounts, enter the penalty on line 20a and the interest on line 20b.

If you need help computing the penalty and interest, please call your district tax office for assistance. Or leave these lines blank, and the Department will compute the charges for you and send you a bill.

Step 19 — Add the amounts in lines 19, 20a, and 20b. Write the total on line 21. Make your check for this amount payable to "Hawaii State Tax Collector."

IMPORTANT: *Please write the filing period such as "Jan. 1994," your license number, and "Form G-45" on the check so it will be properly credited if it is accidentally separated from your tax return.*

Step 20 — Make sure you have entered the grand total exemptions/deductions from the reverse side of the return on line 22.

Step 21 — Sign your name and write your title and the date in the spaces provided.

Step 22 — Send both the return and check to your District Office (see front cover for mailing addresses). Attach your check to the return.

REMINDER!!!

GENERAL EXCISE/USE TAX ANNUAL TAX RETURN AND RECONCILIATION MUST BE FILED.

Section 237-33 of the Hawaii Revised Statutes requires every taxpayer to file a General Excise/Use Tax Annual Tax Return and Reconciliation. This return is used by the taxpayer to reconcile his or her account for the entire year. It is, for the most part, a simple summary of business conducted in the past calendar or fiscal year, whichever is applicable. If the periodic returns were completed correctly and the taxes due paid in full, in many cases the amount of total tax liability (Line 21) will be the same as the total taxes paid during the year (Line 25) and no additional tax will be due. DO NOT confuse this Annual Return and Reconciliation with the Net Income Tax Return.

STEP-BY-STEP INSTRUCTIONS FOR FILLING IN YOUR FORM G-49 (ANNUAL RETURN AND RECONCILIATION)

(The circled numbers in the sample below correspond to the steps in the instructions on the following page.)

FORM G-49
(Rev. 1993)

STATE OF HAWAII — DEPARTMENT OF TAXATION
ANNUAL RETURN & RECONCILIATION
GENERAL EXCISE/USE TAX RETURN
FOR CALENDAR YEAR 1994

NAME: **DOE, JOHN**

G.E./USE ID. NO. **1 0 0 0 0 0 0 0**

THIS ANNUAL RETURN MUST BE FILED ON OR BEFORE THE TWENTIETH DAY OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE CALENDAR OR FISCAL YEAR.

DO NOT WRITE IN THIS AREA

16

SCHEDULE A — ACTIVITIES UNDER CHAPTER 237, HRS — GENERAL EXCISE TAX LAW

BUSINESS ACTIVITIES	PLS. ACT. CODE	VALUES, GROSS PROCEEDS OR GROSS INCOME	EXEMPTIONS/DEDUCTIONS (EXPLAIN ON REVERSE SIDE)	TAXABLE INCOME (Do not include exempt income)	RATE	TAXES	
WHOLESALE	1	2,000 00	0 00	2,000 00	.005	10 00	1
MANUFACTURING	2				.005		2
PRODUCING	3				.005		3
SUGAR PROCESSING	4				.005		4
PINEAPPLE CANNING	5				.005		5
SERVICES RENDERED FOR AGRI-CULTURE/INDUSTRY	6				.005		6
INSURANCE COMMISSIONS	7				.0015		7
RETAILING	8	18,000 00	50 00	17,950 00	.04	718 00	8
SERVICES INCL. PROFESSIONAL	9				.04		9
CONTRACTING	10				.04		10
THEATER AMUSEMENT AND SHOWBUSINESS	11				.04		11
INTEREST	12				.04		12
COMMISSIONS	13				.04		13
TRANSPORT ACCOMMODATIONS SERVICES	14				.04		14
OTHER RENTALS	15				.04		15
ALL OTHERS	16				.04		16

SCHEDULE B — ACTIVITIES UNDER CHAPTER 238, HRS — USE TAX LAW

IMPORTS FOR RESALE AT RETAIL	17	18,000 00	0 00	18,000 00	.005	90 00	17
IMPORTS FOR CONSUMPTION	18				.04		18

TAX OFFICE COPY

NATURE OF BUSINESS

wholesale/retail

19. TOTAL TAXES DUE (ADD LINES 1 — 18)	12	818 00	19
20a. PENALTY \$			
20b. INTEREST \$	13		20
21. TOTAL AMOUNT (ADD LINES 19 AND 20)	14	818 00	21
22. TOTAL TAXES PAID IN PREVIOUS MONTHS, QUARTERS, OR SEMI-ANNUAL PERIODS (SEE INSTRUCTIONS FOR EACH PERIOD)	15	818 00	22
23. ADDITIONAL ASSESSMENTS PAID FOR THE PERIODS INCLUDED ON LINE 19	16		23
24. PENALTIES \$ (17) INTEREST \$ (18) PAID DURING THE PERIOD	19		24
25. TOTAL PAYMENTS MADE (ADD LINES 22 — 24)	20	818 00	25
26. CREDIT TO BE REFUNDED (LINE 25 MINUS LINE 21)	21	0 00	26
27. TAXES DUE AND PAYABLE (LINE 21 MINUS LINE 25)			27
28. FOR LATE FILING ONLY	28a. PENALTY \$		28
	28b. INTEREST \$		29
29. TOTAL AMOUNT DUE AND PAYABLE (ADD LINES 27 AND 28)			29
30. PLEASE ENTER AMOUNT OF YOUR PAYMENT (Make check payable to "HAWAII STATE TAX COLLECTOR" in U.S. DOLLARS DRAWN ON ANY U.S. BANK. Write your general excise/use I.D. number on the check)	22	0 00	30
31. GRAND TOTAL EXEMPTIONS/DEDUCTIONS FROM BACK OF FORM	23	50 00	

DECLARATION: I declare, under the penalties on form G-49, sections 237-48 and 238-12, HRS, that this return, including any accompanying schedules or statements, has been examined by me and to the best of my knowledge and belief, is true, correct, and complete, and no other documents made required by the law have been omitted. IN THE CASE OF A CORPORATION OR PARTNERSHIP, THIS RETURN MUST BE SIGNED BY AN OFFICER, PARTNER, OR ONLY AUTHORIZED SIGNATORY.

John Doe

SIGNATURE

24

owner

TITLE

4/20/95

DATE

See Front Cover For Mailing Address

THIS SPACE FOR DATE RECEIVED STAMP

FORM G-49 16

Page 8

The Top of the Tax Return

Step 1 — If you are a calendar year taxpayer, write the year in the area provided. If you are a fiscal year taxpayer, enter the month, day and year your fiscal year ends.

Step 2 — Write your name here. Individuals, write your last name first.

Step 3 — Enter your G.E./Use I.D. No. in the area provided.

Lines 1-16 — Schedule A (General Excise Tax)

Step 4 — Complete lines 1 through 16, columns a through d just as you did your periodic tax returns. One difference is that the amounts reported are for the entire year.

For example, if you correctly reported \$9,000 in gross income on line 8 in the first and second semiannual periods, then the gross income reported on line 8 on the annual return will be \$18,000 (\$9,000 + \$9,000).

If a promoter, a contractor, or other person withheld general excise or use tax and paid it to the Department of Taxation on your behalf, enter the amount paid to you or the gross income on which the tax was withheld.

Since the annual return is a reconciliation of the "actual" gross income, exemptions and deductions, taxable income, and taxes due, with the "reported" figures filed on the periodic returns, entries on the annual return will differ from the periodic returns if an error was made on a periodic return.

Step 5 — If you have allowable exemptions or deductions, enter the total in column b on the appropriate business activity line or lines. If you do not have any exemptions or deductions, enter zero (0) on the applicable line or lines.

As in Step 4 above, the amounts and types of exemptions and deductions listed will be the sum of the "actual" allowable exemptions and deductions for the entire year.

IMPORTANT: *Most deductions allowed on net income tax returns (for example operating expenses or cost of goods sold) are NOT deductible on general excise tax returns. Explanations of allowable exemptions and deductions are found at the end of this book.*

Step 6 — For each activity you engage in, subtract column b from column a and enter the result in column c, taxable income. If the result is zero, enter a zero (0).

Step 7 — For each activity you engage in, multiply the taxable income in column c by the appropriate tax rate. Enter the result in column d. The result will be the general excise tax due for that activity. If the result is zero, enter a zero (0).

Step 8 — If you are claiming exemptions or deductions in column b, turn to the reverse side of the return. Write the line number of the activity

for which the exemption or deduction is being claimed and the description of the exemption or deduction. If you write the HRS section number of your claimed exemptions or deductions (from the back pages of this book), it will speed processing of your return and minimize the chances of us misunderstanding what you claimed.

Step 9 — Add the dollar amounts of the exemptions and deductions for Schedule A, activities taxable under the general excise tax law, and enter the sum on the subtotal line.

Lines 17-18 — Schedule B (Use Tax)

Step 10 — As with lines 1 through 16, lines 17 and 18 are completed in a similar manner as the periodic tax returns. The only difference is that the amounts reported are for the entire year.

Step 11 — If you are claiming exemptions or deductions in column b of lines 17-18, turn to the reverse side of the return. Write the line number of the activity for which the exemption or deduction is being claimed and the description of the exemption or deduction. If you write the HRS section number of your claimed exemptions or deductions (from the back pages of this book), it will speed processing of your return.

If you have paid sales or use tax in another state on property that is subject to the Hawaii use tax, see "Lines 17 and 18, Column b", in the "General Excise and Use Tax Activity Classifications" in the general instructions at the beginning of this book.

As in Step 4 above, the amounts and descriptions of the exemptions and deductions listed will be the sum of the "actual" allowable exemptions and deductions for the entire year.

Step 12 — Add the dollar amounts of the exemptions and deductions for Schedule B, and enter the sum on the subtotal line.

Step 13 — Add the subtotals of Schedule A and B on the reverse side of the return and enter the total on the grand total line and line 31 on the front of the return.

Finishing the Tax Return

Step 14 — On the front page of the return, add all of the amounts in lines 1 through 18, column d. Enter the sum on line 19. This is the total tax due.

CAUTION: *LINE 19 MUST BE FILLED IN. If you do not owe either general excise tax or use tax, enter a zero (0) here.*

Step 15 — On line 20, add all the penalties and interest which have been assessed on taxes owed on the periodic tax returns.

Step 16 — Add lines 19 and 20, and enter the result on line 21.

Step 17 — Add the total amount of general excise and use taxes paid with your periodic tax returns and delinquency notices on line 22.

Step 18 — Enter the amount of tax paid with any assessment notices on line 23.

Step 19 — Enter the amount of any penalty paid with your periodic tax returns, delinquency notices, or assessment notices on line 24 in the space provided to the right of "PENALTIES \$."

Step 20 — Enter the amount of any interest paid with your periodic tax returns, delinquency notices, or assessment notices on line 24 in the space provided to the right of "INTEREST \$."

Step 21 — Add the amount of penalty and interest paid, and enter the total on line 24 at the far right.

Step 22 — Add the amounts on lines 22 through 24 and enter the total on line 25.

Step 23 — Compare the amounts on lines 21 and 25. If the amount on line 21 is THE SAME AS line 25, go on to Step 25 below.

If the amount on line 21 is LESS THAN line 25, subtract line 21 from line 25 and enter the result on line 26. This is your credit to be refunded to you. Go on to Step 25 below.

If the amount on line 21 is MORE THAN line 25, subtract line 25 from line 21 and enter the result on line 27. This is your taxes now due and payable.

If you file a tax return after the due date, and if there is tax due on the return, then you must compute penalty and interest charges. After computing the amounts, enter the results to the right of "PENALTIES \$" and "INTEREST \$" on lines 28a and 28b. Add lines 28a and 28b and enter the result on line 28.

If you need help computing the penalty and interest, please call your district tax office for assistance. Or leave these lines blank, and the Department will compute the charges for you and send you a bill.

Step 24 — Write the amount of your total payment including any penalty and interest on line 30. Make your check for this amount payable to "Hawaii State Tax Collector."

Step 25 — Make sure you have entered the grand total exemptions/deductions from the reverse side of the return on line 31.

Step 26 — Sign your name and write your title and date in the spaces provided.

Step 27 — If no additional tax is due, send the return to your District Office (see front cover for mailing address information).

If additional taxes are due, send the return and a check to your District Office. Attach the check to the return.

IMPORTANT: *Please fill in each column of your business activity(ies) with a dollar amount or zero (0) or processing errors will result. Also, write "Form G-49" and your license number on the check, if applicable, so that it may be properly credited if it is accidentally separated from the tax return.*

SCHEDULE OF GENERAL EXCISE TAX EXEMPTIONS AND DEDUCTIONS

(NOTE: ALL SECTION REFERENCES ARE TO THE HAWAII REVISED STATUTES)

Unless the following instructions tell you not to report the exempt or deducted amounts, you must explain on the reverse side of the return the exemptions and deductions taken under column b preceded by statement of line number and amount claimed. For circumstances under which an exemption or a deduction is permitted or allowed, refer to the following sections:

Affordable Housing: Gross income received by a qualified person or firm for the planning, design, financing, construction, sale, rental, or lease of a housing project certified by a qualified state agency or a county is exempt. For more information, get Form G-37. (*Section 46-15.1, 201E-205, or 356-42.*) There is also an exemption for units built by private developers, which applies to the first 10,000 units certified and completed by December 31, 1994. For more information, get Form G-36 from the Housing Finance and Development Corporation. (Act 303, SLH 1992.) Report and explain these amounts.

Air Pollution Control Facilities: Sales of certain new facilities, and of tangible personal property used in their construction, use, or maintenance, are exempt. These facilities must be certified by the Department of Health at least once every five years. Report and explain these amounts. (*Section 237-27.5.*)

Alcohol Fuels: Retail sales of alcohol fuel, which includes gasohol that is at least 10% alcohol by volume, are exempt. Report and explain these amounts. (*Section 237-27.1.*)

Alimony: Alimony and other similar payments and settlements are exempt. Do not report these amounts. (*Section 237-24(7).*)

Bad Debts: For accrual basis taxpayers, accounts that are actually charged off as worthless for income tax purposes may be deducted in column b. No deduction may be taken for a bad debt reserve. If accounts written off are later collected, the collection is included in column a for the period in which it was received. (*Section 237-3(b).*)

Casual Sales: Proceeds from a casual sale are not taxed. A casual sale means an occasional, isolated, irregular, infrequent, or incidental sale or transaction involving tangible personal property that is not ordinarily sold in the usual course of a trade or business. Sales of inventory, or sales that are carried out on a systematic basis, such as when a rental car company sells its rental cars in order to make way for new ones to rent, do not qualify as casual sales. For details, see section 18-237-1, Hawaii Administrative Rules. Do not report these amounts. (*Section 237-2.*)

Common Paymaster Exception: If employees work for more than one related corporation, one of the corporations may pay the employees on behalf of all employers. If so, the intercompany transfers of funds to the common paymaster are exempt from tax and need not be reported. See *Section 237-23.5(b)*. For hotels whose employees are paid by hotel operators, see *Section 237-24.7(1)*. For orchards whose employees are paid by orchard operators, see *Section 237-24.7(4)*.

Damages for Personal Injuries and Property Damage: Compensatory damages for personal injuries or defamation, or compensatory dam-

ages for damage to property, are exempt. Do not report these amounts. (*Section 237-24(5).*) Punitive damages, and any damages for breach of contract, are taxable if the damages are connected to business in which you are or were engaged.

Disability Provisions: There is an exemption for the first \$2,000 of gross income earned by any blind, deaf, or totally disabled person. (*Section 237-24(13).*) The remaining gross income is taxed at a special rate of 0.5%. Contact your district tax office for special instructions.

Discounts and Returned Merchandise: Cash or other discounts on the price of articles sold are considered price adjustments and should be considered in figuring the amount to report in column a. Cash or store credit that is given for returned merchandise is deductible and should be entered in column b of the same line on which the merchandise sales were reported. (*Section 237-3(b).*)

Dividends and Distributions: Dividends and other distributions of income or profit from corporations, partnerships, and trusts are not taxable. Do not report these amounts. (*Section 237-3(b).*) The exemption does not apply if the distribution is a payment due to transaction of business with the shareholder, partner, or beneficiary.

Drugs and Prosthetic Devices: Sales to individuals by a hospital, infirmary, medical clinic, health care facility, pharmacy, or practitioner licensed to administer drugs or prosthetic devices are exempt. Report and explain these amounts. Prosthetic devices do not include such items as glasses, hearing aids, or dentures. For more information, see Tax Information Release No. 86-4. (*Section 237-24.3(7).*)

Employee Benefit Plans: Amounts received by an employee benefit plan as contributions, dividends, and interest are exempt. Amounts received by a nonprofit organization or office as payments for costs and expenses incurred for the administration of an employee benefit plan are also exempt. Do not report these amounts. (*Section 237-24.3(5).*)

Enterprise Zones: There are tax incentives for employers doing business in properly designated enterprise zones. Designation of zones, and certification of employers and businesses in those zones, are administered by the Department of Business, Economic Development, and Tourism. (*Section 209E-11.*)

Federal Cost-Plus Contractors: If you are a federal cost-plus contractor, you may elect to deduct any amounts that you were reimbursed under the contract for materials, plant, or equipment. To claim the deduction, you must certify that you are taxable with respect to the gross proceeds of the sale, and that you elect to have the tax on the gross income computed the same as upon a sale to the state government. Please attach the certification on a separate sheet. (*Section 237-13(3)(C).*)

Federally Preempted Amounts: Gross income is not taxed if the Constitution and laws of the United States prohibit the State of Hawaii from taxing it. If you are claiming this exemption, you must enter the amount claimed to be exempt in column b, and on the back of the re-

turn. Your explanation of this exemption must include a description of the constitutional provision or federal statute which you claim entitles you to the exemption. If possible, please include a reference to the United States Code (U.S.C.) to identify any federal law. (*Section 237-22.*)

If your business earns interest from buying U.S. Treasury obligations or similar instruments, check Tax Information Release No. 84-1 for a list of obligations for which interest is exempt. If the kind of bond or obligation that you have is listed as exempt, please identify the type of obligation that it is, and refer to "TIR No. 84-1" in your explanation of the exemption.

Food Stamps: Amounts received for purchases made with USDA food coupons or vouchers under the federal food stamp program, or the Special Supplemental Food Program for Women, Infants and Children, are exempt. Report and explain these amounts. (*Section 237-24.3(6).*)

Foreign Trade Zone Sales: Sales of products which are admitted into a foreign trade zone and made directly to any common carrier in interstate or foreign commerce for consumption out-of-state are exempt, provided that the sale takes place entirely within the zone. Report and explain these amounts. (*Section 212-8.*)

Foster Parents: Foster parents are not taxable on amounts they receive from the State or eleemosynary child-placing organizations for their care of children in foster homes. Do not report these amounts. (*Section 237-24(15).*)

Geothermal Power: Amounts received from selling geothermal power are exempt. Do not report these amounts. (*Section 182-16.*)

Gifts and Bequests: Any property acquired by gift, bequest, or devise is exempt. Do not report these amounts. (*Section 237-24(2).*)

Hotel Operator: Amounts received by the operator of a hotel from the owner of the hotel specifically to cover the costs of employee wages, salaries, payroll taxes, insurance premiums and benefits (including retirement, vacation, sick pay, and health benefits) are exempt. Report and explain these amounts. (*Section 237-24.7(1).*)

Insurance Proceeds: Amounts received under life insurance contracts because of the death of the insured (*Section 237-24(1)*), amounts received under life insurance, endowment, or annuity contracts paid either during the term of the contract or at maturity (*Section 237-24(2)*), or amounts received under an accident, health, or worker's compensation policy because of personal injuries, death, or sickness (*Section 237-24(3)*), are all exempt; do not report these amounts.

If a person receives amounts under fire or accident policies to repair or replace damaged property, the amounts could qualify as money received because of casual sales (see that heading above). Amounts paid under business interruption insurance contracts to replace lost income, or amounts paid under any insurance contracts to repair or replace inventory property, including crop losses, are considered taxable. Report all of these amounts on line 16, even if the insurance proceeds replace inventory property that otherwise would have been sold at

wholesale. For more information, see Tax Information Release No. 92-7. If the damage or loss of inventory property took place in an area declared a natural disaster area, an exemption should be claimed (described below under "Insurance Proceeds Received Because of a Natural Disaster").

Insurance Proceeds Received Because of a Natural Disaster: If you receive amounts under property and casualty insurance policies for damage or loss of inventory used in a trade or business located within an area declared a natural disaster area by the Governor, this exemption applies. Report and explain these amounts. (Section 237-24.7(6).)

Intercompany Charges: Charges for legal, accounting, managerial, and administrative services (including related overhead costs) furnished by one related entity to another, or interest on loans or advances to related entities, are not taxable. Related entities are generally those related through 80% common ownership; see Section 237-23.5(a), HRS, for more information. These amounts must be reported and explained. (Section 237-23.5(a).)

Labor Organizations: A labor organization that is exempt from federal income tax under Section 501(c)(5) of the Internal Revenue Code is not taxable on rents for real property leased to (A) another labor organization, or (B) a trust providing membership service programs such as a pension plan, a common fund for medical or hospital care, or apprenticeship and training. (Section 237-24.3(10).)

Maintenance Fees: Maintenance fee payments by condominium owners to an association of apartment owners (AOAO) in reimbursement of sums paid for common expenses are exempt income for the AOAO. The same exemption applies when owners pay these fees to nonprofit homeowners' or community associations (Section 237-24.3(3)), or to qualifying cooperative housing corporations. (Section 237-24(16).) Do not report these amounts.

Mass Transit: Income of the operator of a mass transit system (of motorized buses) is exempt, if a political subdivision owns the property and the facilities of the county transportation system (including buses, real estate, parking garages, fuel pumps, etc.). Do not report these amounts. (Section 237-24.7(2).)

Merchants' Association Dues: Amounts received from the membership of an unincorporated merchants' association as dues for advertising or promotion are exempt, as long as the advertising and promotion are for the benefit of the membership as a whole and not for an individual member or subgroup of members. Do not report these amounts. (Section 237-24.3(9).)

Non-profit Organizations: Amounts received by certain non-profit fraternal, religious, charitable, scientific, educational, community or social welfare groups and hospitals, infirmaries and sanitarium organizations may be exempt. Do not report these amounts. (Section 237-23(a).) However, **ALL** fundraising activities of these organizations are taxable and must be reported. See Tax Information Release Nos. 89-6, 89-13, 91-2, and 91-4, for more information.

Orchard Operator: Amounts received by the operator of orchard properties from the owner of the orchard property specifically to cover the costs of employee wages, salaries, payroll

taxes, insurance premiums and benefits (including retirement, vacation, sick pay, and health benefits) are exempt. Report and explain these amounts. (Section 237-24.7(4).)

Out of State Sales: The value or gross proceeds received by a manufacturer, producer, or seller of tangible personal property shipped to a point outside of the State where it is resold or otherwise consumed or used outside the State are exempt. Report and explain these amounts. For more information, see Tax Information Release No. 88-1. (Section 237-29.5(1).)

Petroleum Refining: Petroleum products refined in Hawaii that will be further refined by another taxpayer are exempt. Report and explain these amounts. (Section 237-27.)

Real Estate Sales: Gross proceeds from the sale of land in fee simple are generally exempt and do not have to be reported. If leasehold land is sold, especially by the lessor, part of the proceeds from the sale may be considered rent and would need to be reported on line 15. For details, see General Excise Tax Memorandum No. 3 and General Excise Tax Memorandum No. 3A. Land in fee simple does not include furniture, fixtures, and equipment. If these items are being sold, see "Casual Sales" above. (Section 237-3(b).)

Contractors, developers, and dealers in real estate must report the gross sale proceeds from their projects in column a, and include in column b (and explain on the back of the return) the amount attributable to the sale of land in fee simple.

Sales of Fresh Foods, Liquor, and Tobacco to Common Carriers: Sales of liquor, certain tobacco, and fresh food products to transportation companies for out-of-state use (or use on vessels) are exempt. Report and explain these amounts. (Section 237-24.3(2).)

Sales to the Federal Government and Credit Unions: Sales of tangible property to the federal government and state and federal credit unions are exempt. This exemption does not apply to federal cost-plus contractors or service providers (even if the service provider separately bills for the item of tangible personal property). (Section 237-25(a).)

Scientific Contracts: Gross proceeds from certain scientific contracts with the federal government are exempt. Report and explain these amounts. For more information, see Tax Information Release No. 35-71. (Section 237-26.)

Senior Citizens' Fair: Proceeds of an annual senior citizens' fair, held by a county commission on aging or appropriate county agencies on aging, are exempt. Do not report these amounts. (Section 349-10.)

Services Related to Ships and Aircraft: Amounts received from the loading or unloading of ships or aircraft; tugboat services including pilotage fees and towage of ships, barges, or vessels in and out of harbors or from one pier to another; and the transportation of pilots or governmental officials to ships, barges or vessels offshore; rigging gear; checking freight and similar services; standby charges; and use of moorings and running mooring lines are exempt. Report and explain these amounts. (Section 237-24.3(4).)

Shipbuilding and Ship Repairs: Gross proceeds arising from shipbuilding and ship repairs

rendered to surface vessels federally owned or engaged in interstate or international trade are exempt. Report and explain these amounts. (Section 237-28.1.)

Shipping and Handling of Agricultural Commodities: Amounts received for loading, unloading and shipping of agricultural commodities between islands in the State from a producer or produce dealer are exempt. These amounts must be reported and explained. (Section 237-24.3(1).)

Software Development Services: Income from technical services (development, design, modification, and programming) necessary for the production and sale of computer software shipped or transmitted to a customer outside the State for use outside the State is exempt. Report and explain these amounts. For more information, see Tax Information Release No. 88-2. (Section 237-29.6.)

Stock Exchange Transactions: Certain amounts received by a domestic or foreign stock exchange, and certain amounts received by exchange members by reason of executing a securities or product transaction on an exchange, are exempt. The exemption does not apply to commission or other income received by brokers or dealers from their customers. Report and explain these amounts. (Section 237-24.5.)

Stocks, Bonds, and Commodity Futures: Gross proceeds from the sale of securities, commodity futures, and bonds are exempt and do not have to be reported. (Section 237-3(b).) If you are selling bonds with accrued but unpaid interest, the interest is considered income that is received when the bond is sold. The interest does not qualify for this exclusion and may need to be reported on line 12. For example, if you purchased an out-of-state municipal bond at a discounted price and sell it for an appreciated price, the difference is considered accrued, but unpaid, interest and that portion would be taxable and reported on line 12. **Please note:** Federal bonds' accrued interest are exempted. See "Federally Preempted Amounts" discussed earlier.

Subcontract Deduction: A prime contractor (or a developer) may be eligible for a deduction in the amount of payments made to a subcontractor or a specialty contractor. To claim the deduction, the general excise tax due from the subcontractor or specialty contractor on that payment must have been paid. Taxpayers wishing to take this deduction may withhold the tax due from the subcontractor and the specialty contractor, or may ensure payment by issuing a check jointly to the subcontractor and the Hawaii State Tax Collector. For more information, see Section 18-237-13-03(a) to (c), Hawaii Administrative Rules, or contact your district tax office for withholding instructions. (Section 237-13(3)(B).)

Sugar Cane Payments to Independent Producers: Certain payments to independent sugar cane producers are exempt. Report and explain these amounts. (Section 237-24(14).)

Taxes Passed On: Amounts received to pay the following taxes are exempt. Each amount should be reported and explained.

- Fuel taxes collected by distributors. (Section 237-24(8).)

- Hawaii liquor taxes collected by dealers. (*Section 237-24(9).*)
- Hawaii cigarette and tobacco taxes paid by wholesalers. (*Section 237-24(10).*)
- Federal excise taxes imposed on articles sold at retail and collected from purchasers. (*Section 237-24(11).*)
- Federal taxes imposed on sugar manufactured in Hawaii. (*Section 237-24(12).*)
- Transient accommodations taxes visibly passed on. (*Section 237-24.3(8).*)

- Rental motor vehicle and tour vehicle surcharge taxes visibly passed on. (*Section 237-24.7(3).*)
- Nursing facility taxes imposed by Chapter 346E, HRS, that are passed on and collected by nursing facilities. (*Section 237-24.7(5).*)

Trade-Ins: For trade-ins, a merchant reduces the price of the new article by the amount of the trade-in allowance. The trade-in allowance is considered a price adjustment and is subtracted from the new article's sales price and the net

amount is reported in column a. Any later sale of the traded-in article is reportable at the time of that sale. (*Section 237-3(b).*)

Wages: Amounts received as salaries or wages for services rendered by an employee to an employer are exempt. If your employer is withholding payroll taxes on these wages, you do not have to report them. If you are being paid as an independent contractor, or if payroll taxes are not being withheld, these amounts are taxable. (*Section 237-24(6).*)

DIVISION OF GROSS INCOME AMONG TAXPAYERS

In general, as mentioned above, the general excise tax is imposed on gross income and no deductions are allowed for costs of producing that income. In the following special situations, however, the law recognizes the division of gross receipts among the taxpayers responsible for those receipts. Taxpayers in these situations report their respective shares of the gross income received.

Coin Operated Devices: Gross receipts are divided between the owner (or operator) of the device and the owner (or operator) of the premises on which the machine is located. (*Section 237-18(a).*)

Insurance Agents and Realtors: Gross commissions are divided among licensed non-employee insurance agents, or among licensed non-employee realtors. (*Section 237-18(e).*) Generally, commission sellers pay tax on commissions earned, and the principal pays tax on gross sales, not the amount net of commissions.

Producers and Promoters: When a person furnishing or producing an event or spectacle (such as a film distributor) and a promoter (such as a theater owner) stage an event, the promoter pays the tax and withholds the producer's tax, and then is not taxed on the producer's share of the income. If the producer is a tax exempt entity, such as a properly registered non-

profit organization, then the promoter is not taxed on the producer's share of the income and the promoter does not have to withhold tax. (*Section 237-18(b).*)

Tour Packagers: Gross revenues can be divided between a tour packager or travel agent, and a provider of tourism related services. (*Section 237-18(f).*) In addition, gross revenues can be divided between a tour packager and a provider of transient accommodations at non-commissioned negotiated contract rates. (*Section 237-18(g).*) For more information, see Tax Information Release No. 91-8 and Attorney General Opinion 65-6.

SCHEDULE OF USE TAX EXEMPTIONS AND DEDUCTIONS

(NOTE: ALL SECTION REFERENCES ARE TO THE HAWAII REVISED STATUTES)

Unless the following instructions tell you not to report the exempt or deducted amounts, you must explain on the reverse side of the return the exemptions and deductions taken under column b preceded by statement of line number and amount claimed.

For circumstances under which an exemption or a deduction is permitted or allowed, refer to the following sections:

Air Pollution Control Facilities: An air pollution control facility itself, and any tangible personal property furnished in conjunction with the construction, reconstruction, erection, operation, use, or maintenance of an air pollution control facility is exempt. These facilities must be certified by the Department of Health at least once every five years. Report and explain these amounts. (*Section 238-3(k).*)

Casual Purchases: A sale of tangible personal property by someone not in the business of selling the property is called a casual sale. (See "Casual Sales," above.) Because gross income derived from a casual sale is excluded from gross income subject to the general excise tax,

the landed value of tangible personal property acquired in a casual sale also is not subject to the use tax. For example, if you purchase a used car from an individual selling his or her personal car and import that car into Hawaii, report the landed value of the car but claim this exemption. (*Section 238-1.*)

Drugs and Prosthetic Devices for Personal Use: If you are an individual who bought drugs or prosthetic devices from a hospital, infirmary, medical clinic, health care facility, pharmacy, or a practitioner licensed to administer the drug to an individual, the landed value of the drugs or prosthetic devices is exempt from use tax. Do not report these amounts. (*Section 238-1.*)

Liquor or Tobacco: Liquor or tobacco products imported and then sold in interstate commerce for sale out of state, or sold to a common carrier for consumption on a vessel or airplane, are exempt. Report and explain these amounts. (*Section 238-3(g).*)

Producers: Certain property used by licensed producers (defined in the instructions for line 3, Producing) is either taxed at a 1/2% rate or is

exempt, depending on whether the imported property is going to be resold at retail. For example, if a farmer sells eggs to grocery stores as well as to neighbors and friends, then the chicken feed the farmer imports is taxed. That portion of the feed used to feed chickens whose eggs the farmer consumes is imported for consumption, and is reported on line 18. The portion attributable to retail sales is imported for resale, and is reported on line 17. The remainder is imported for wholesale, and is exempt; include those amounts on line 17, columns a and b, and explain this on the back of the return. (*Section 238-4.*) For more information, see Administrative Rules Section 18-238-4.

Scientific Use Property: Property which is to be affixed to, or which is to become a physical, integral part of a scientific facility, or which is to be entirely consumed during the performance of a service required by a scientific contract with the United States Government, is exempt. Report and explain these amounts. For more information, see Tax Information Release No. 35-71. (*Section 238-3(j).*)